Options for raising tax revenue in Ireland

NERI webinar

Date
24th November 2021

Presenter
Barra Roantree (based on ESRI BP202201 joint with Theano Kakoulidou)

Likely need for higher taxes in the coming years

Spending rose from €87.2bn in 2019 to €106bn in 2020

- Deficit financed spending the appropriate response to COVID-19 pandemic and <u>should not</u> be withdrawn prematurely

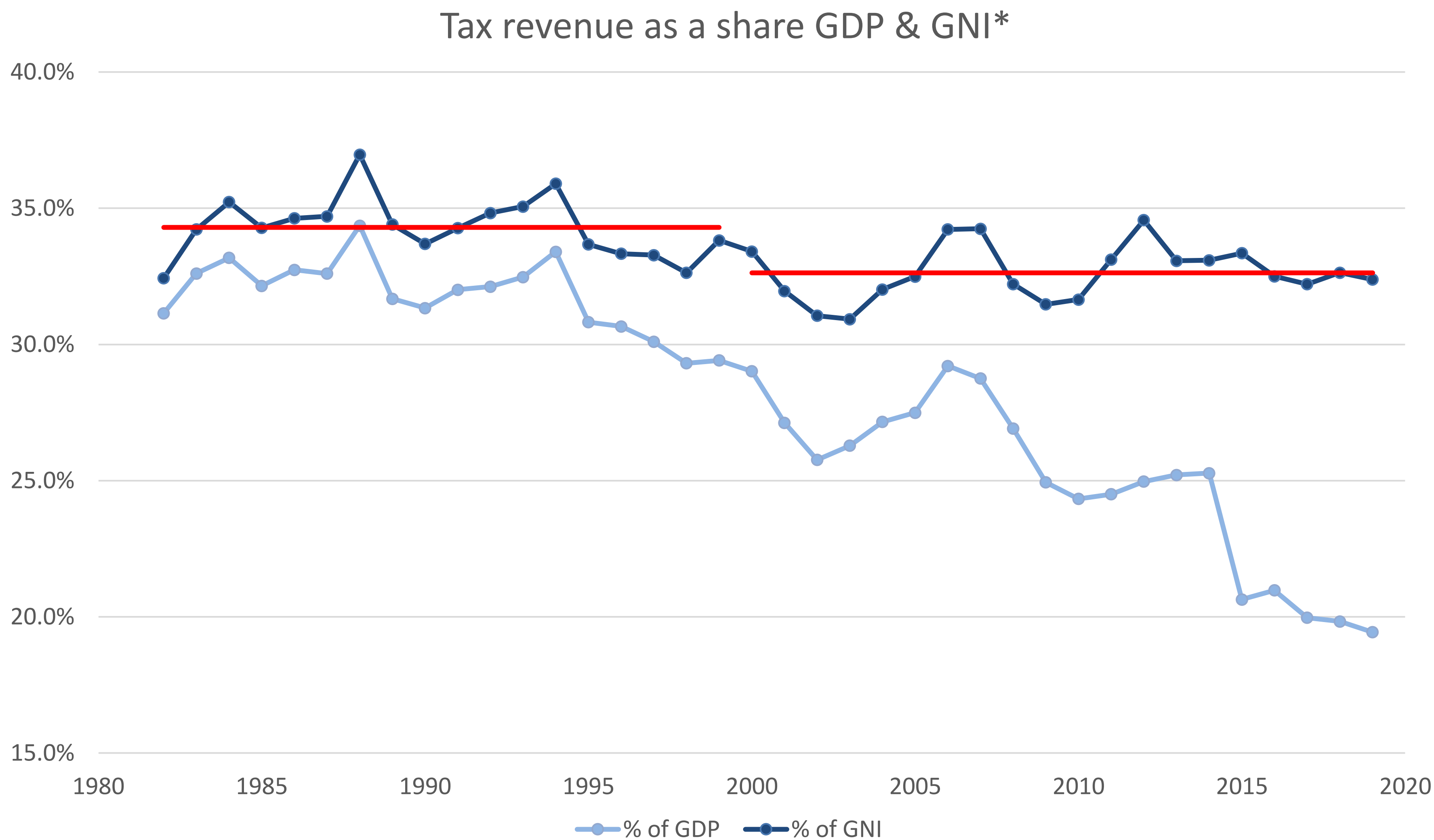
However…

- Demographics will increase cost of providing existing services: pensions + healthcare ↑ from 13.3 to 25% GNI* by 2050 (IFAC)
- Big commitments to reform health system & expand social welfare entitlements in Programme for Government
- Potential over-reliance on corporation & motor tax receipts

Paper sets out and analyses – but does not advocate any particular – options to raise tax revenue

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

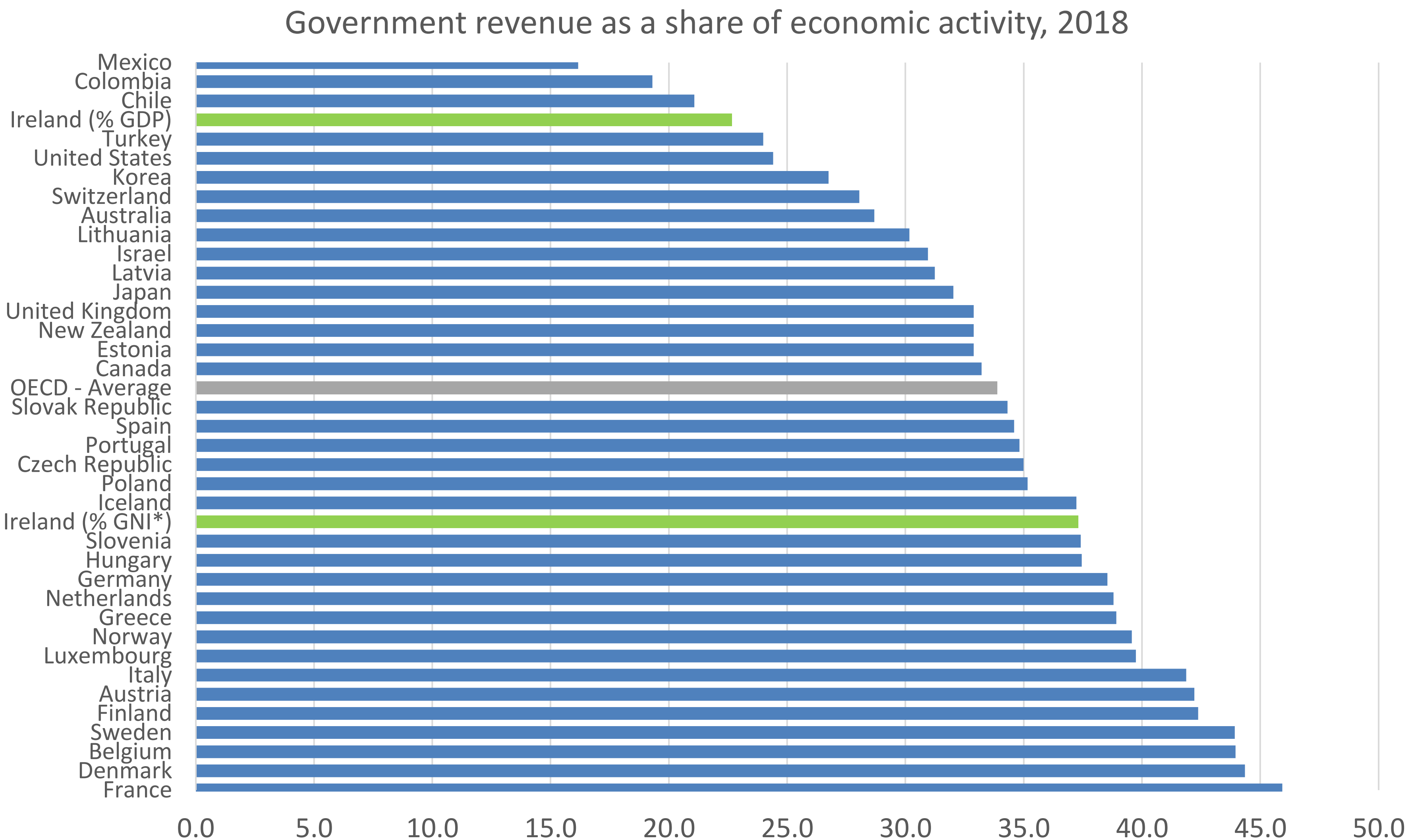
Ireland raises a bit less in taxes than it used to



Source: See Figures 2.1 in "Options for tax increases"

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

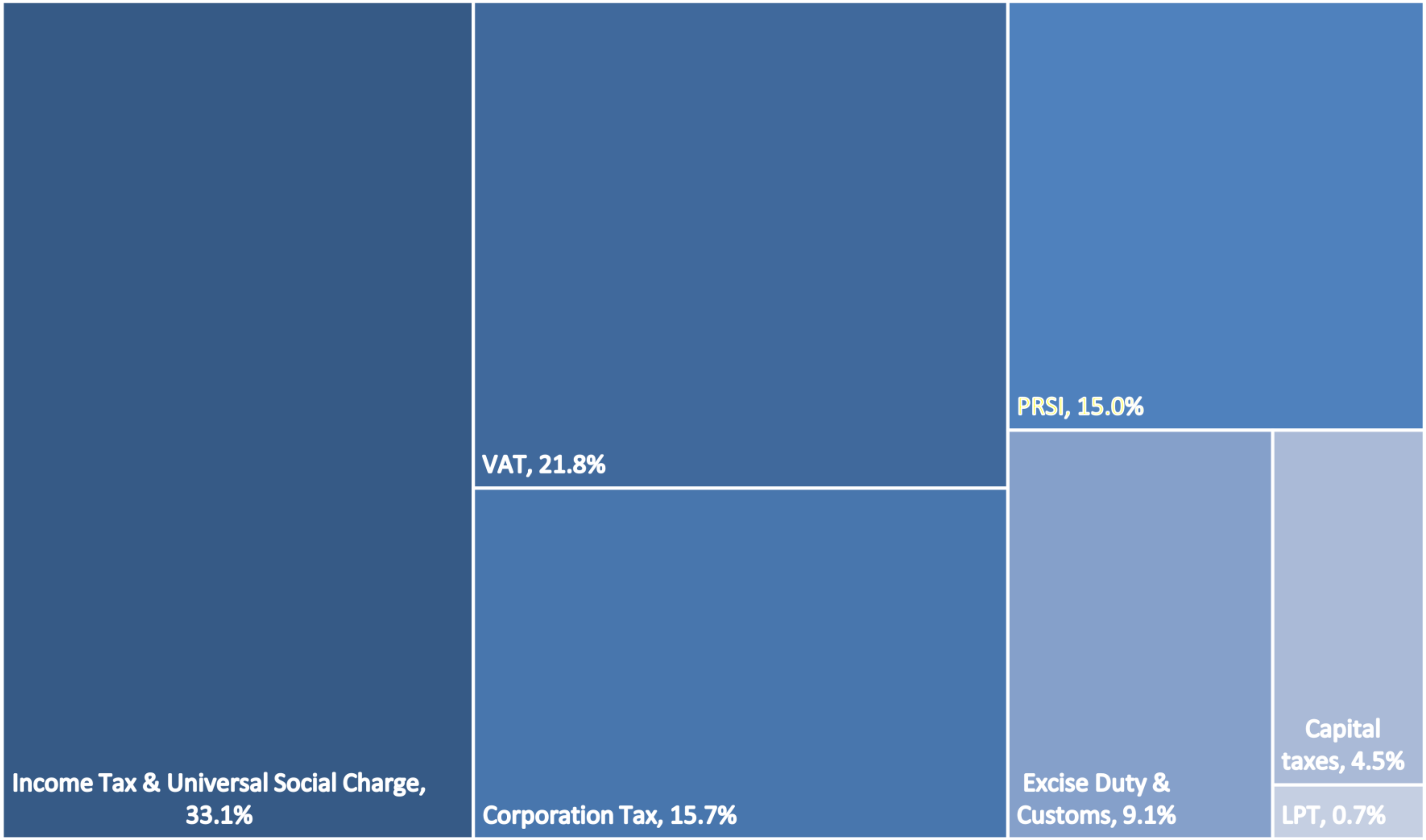
… but a bit more as % activity than OECD average



Source: OECD's Global Revenue Statistics Database, see Budget Perspective paper for additional information

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

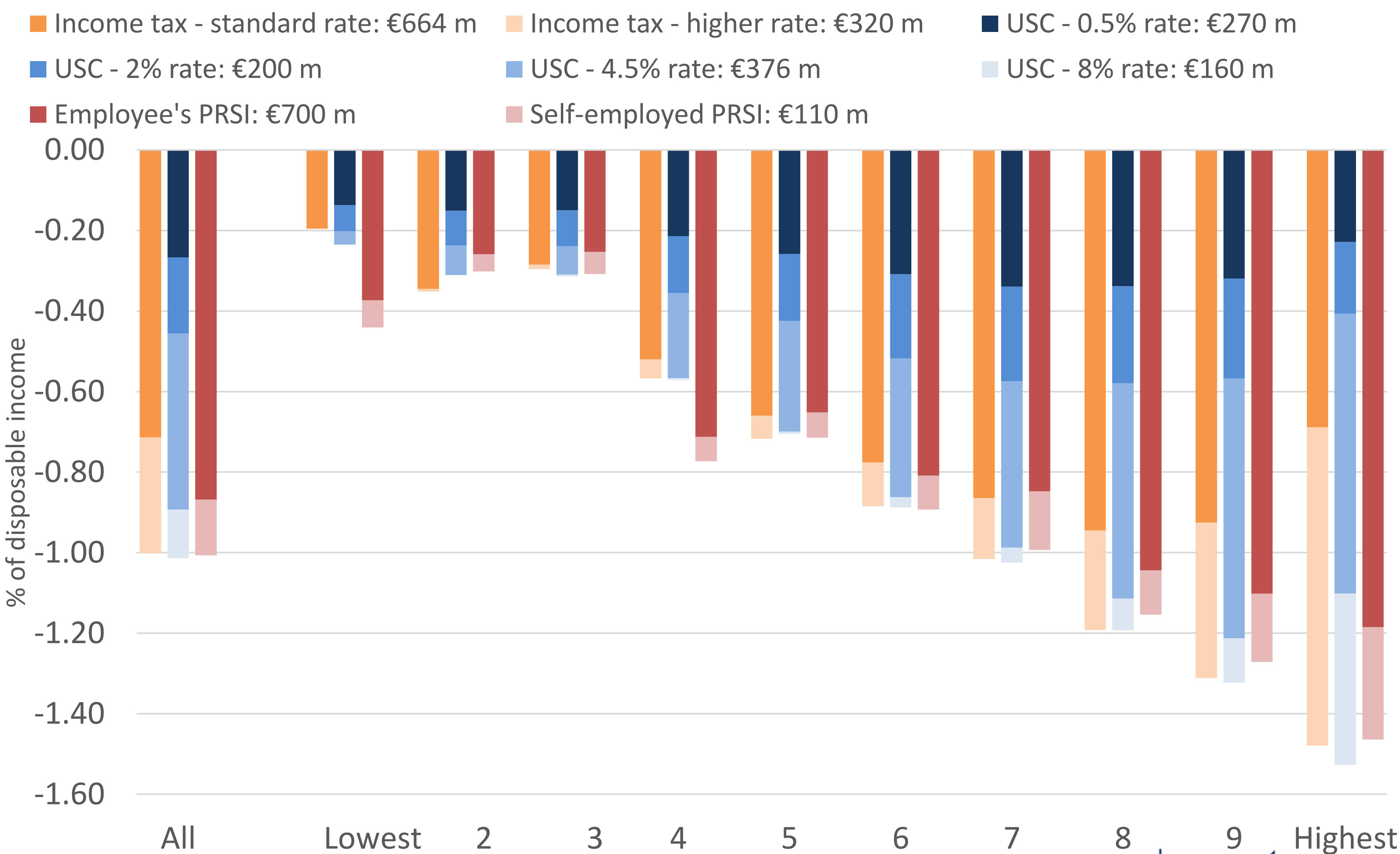
… with revenues coming from four main sources



Source: See Figures 2.3 in “Options for tax increases”

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

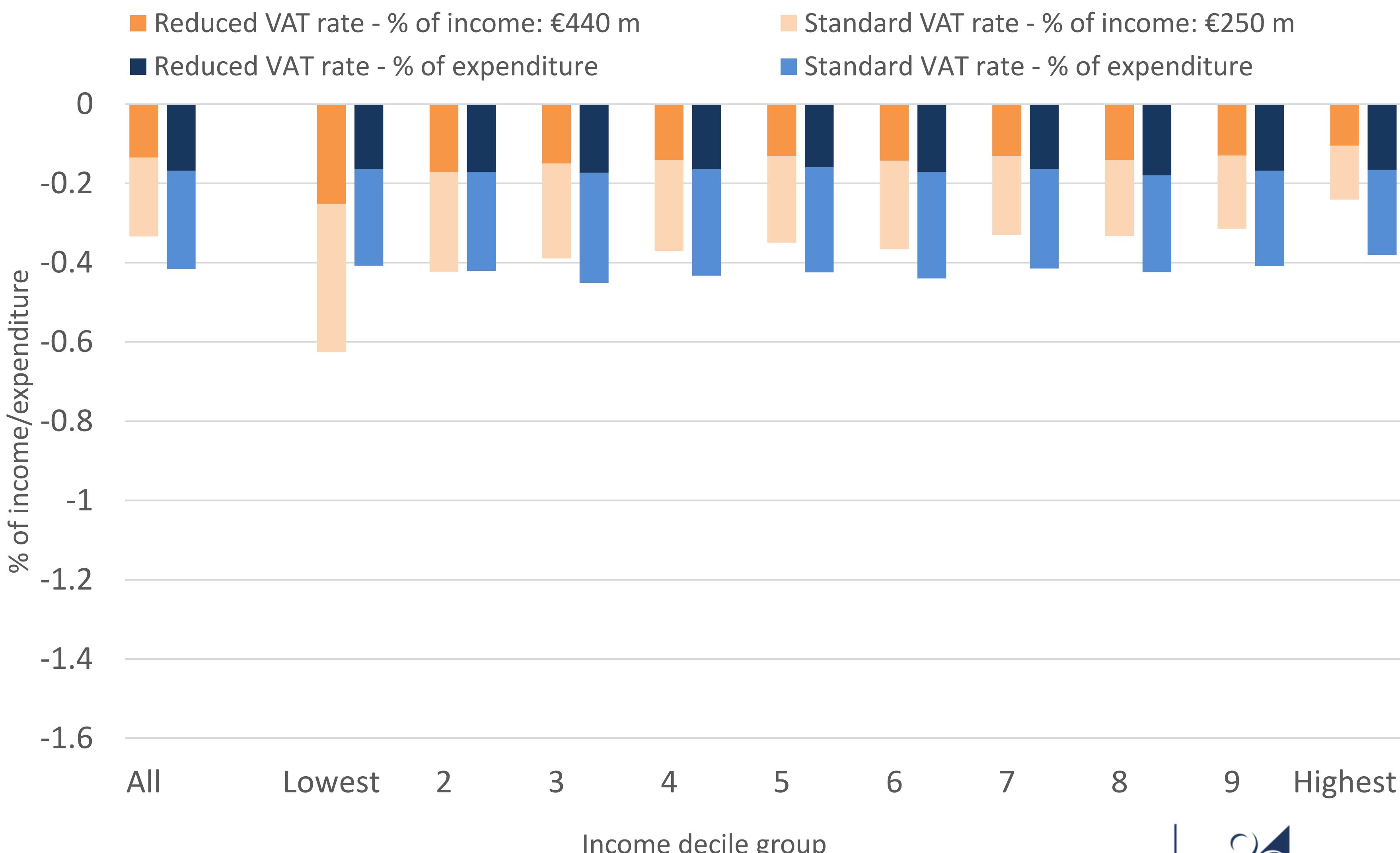
Raising taxes on personal income could raise €€€



Source: See Figures 3.1 & 3.2 in “Options for tax increases”

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

As could increases in VAT (though less progressive)



Source: See Figures 3.3 in "Options for tax increases"

Other options for broad-based tax rises include:

Increasing excise duties & the carbon tax

- 10% rise in all rates would raise about €600 million
- Burden bigger for lower-income (& spending) households
- Better suited to addressing externalities than raising €€€?

Increasing the Local Property Tax

- Currently moving from 2013 to 2021 property values and bringing newly built owner-occupied dwellings into scope
- … but rate being cut to maintain yield at c.€500m
- Average payment of €243 in 2020 compared to £1,385 for council tax in England & £990.38 for rates in Mid Ulster

Could also raise main rate of corporation tax

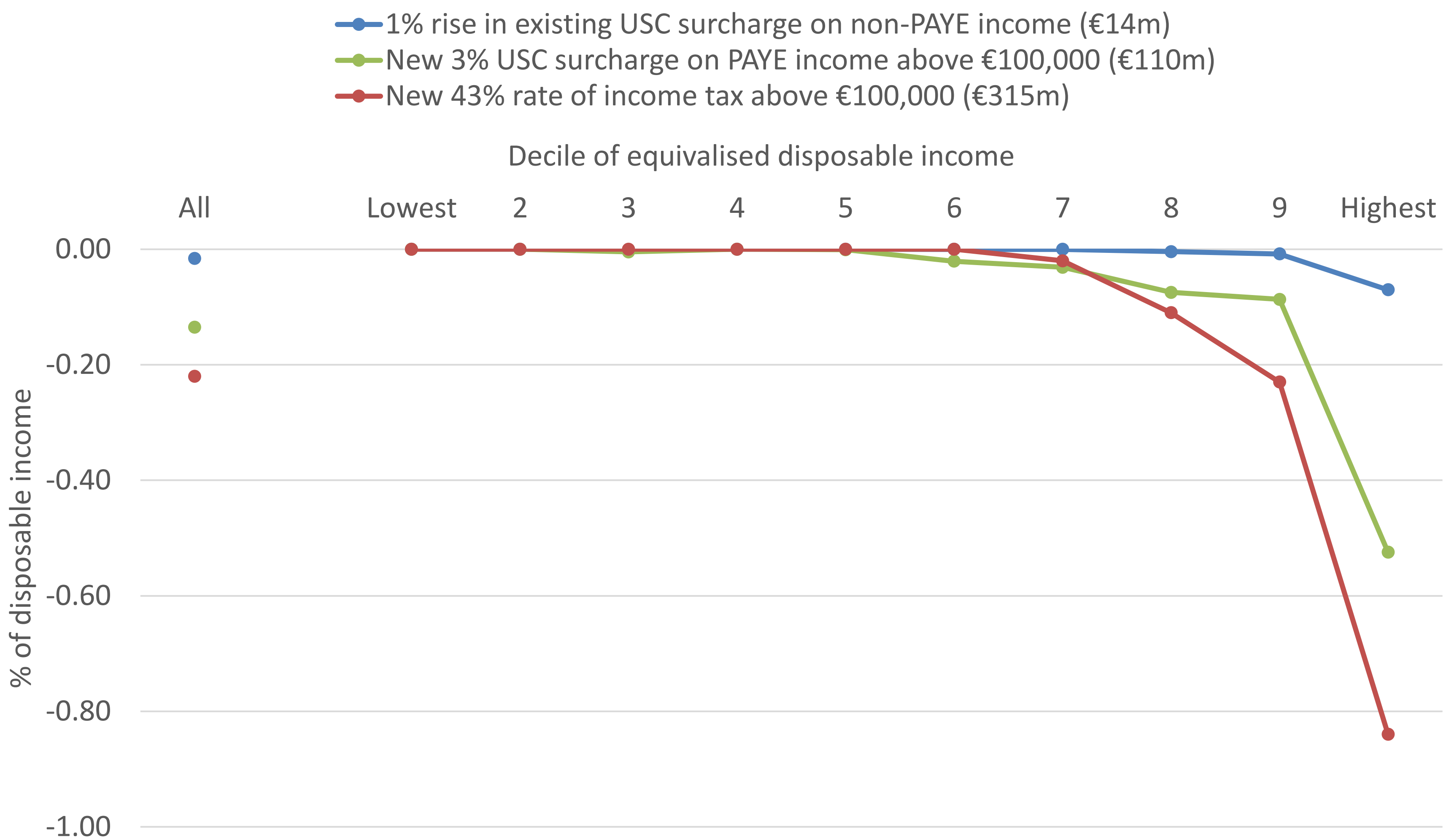
Though unclear what such a tax increase could yield

- Receipts highly concentrated among small number of firms (51% from just 10 in 2019) => yield sensitive to their decisions
- Maybe more scope to raise revenue from smaller firms, but would be reversal in new policy of setting lower rate for these

Increasing rate would have other economic effects

- Would discourage investment (both foreign and domestic)
- Some of burden would fall on workers, consumers & retirees

Or focus tax increases on higher-income people



ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

… or on those with lots of wealth/inheritances

Recurrent wealth tax would need few exemptions or to be set at very high rates to raise substantial revenue

- Majority of household wealth held in the form of property, even for the wealthiest households (Horan et al., 2021)
- Lawless & Lynch (2018) estimate only €53m yield from 1% tax above €1m/adult excluding PPRs, farms, businesses & pensions

More scope to raise taxes on transfers of wealth

- Less than 1-in-2 deaths lead to an inheritance subject to CAT
- Average payee in 2019 had received c.€600k from parents/kids
- Reducing tax-free threshold from €335k to €250k would raise c.€63m (more if accompanied by rate increases or restrictions in reliefs)

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

Potential to improve design of taxes while raising €

Many reliefs poorly targeted at achieving stated aims e.g:

- CAT Business and Agricultural Relief (€360m in 2019)
- €200k tax-free pension lump-sum (cost €134m in 2014)
- Help-to-Buy (c.€100m per year)
- Entrepreneur relief (€92.4m in 2018)

Self-employment is highly tax favoured vs employment

- No equiv. of employer PRSI (8.8-11.05% of pay for employees)
- Very similar access to contributory benefits (93% in value terms)
- Blanket reduced tax rates poorly targeted at entrepreneurship
- Equalising rates could raise €1.15bn, but would discourage investment without offsetting measures (Adam & Miller, 2021)

ESRI ECONOMIC & SOCIAL RESEARCH INSTITUTE

Conclusions

Need for substantial tax increases in coming years likely

- While many ways to focus tax increases on 'better off', would struggle to raise substantial €€€ unless set at very high rates
- Relatively straightforward to raise substantial €€€ by increasing broad-based taxes on income, consumption & property
- Can still achieve distributional goals with such tax increases

Wide range of anomalies in the current tax system

- Create distortions which raising rates alone could amplify
- Addressing these could raise revenue while leaving tax system better designed for the coming decades